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**House Energy & Technology Committee  
February 21, 2007  
Testimony of Michael W. Peters, President  
Michigan Electric Cooperative Association**

Good morning Chairman Accavitti, and members of the committee, I want to thank you for the opportunity to address you regarding issues of concern to the electric cooperatives. I am Mike Peters with the Michigan Electric Cooperative Association (MECA). MECA is the statewide trade association representing the interests of Michigan's electric cooperatives<sup>1</sup>. MECA's membership consists of nine distribution cooperatives, one cooperative whose members are all choice customers under P.A. 141, and one generation and transmission cooperative, Wolverine Power Cooperative (Wolverine), whose President and CEO, Eric Baker, is with me today. Collectively, the electric cooperatives provide retail electric service to over 310,000 homes, farms and businesses located in 59 of Michigan's 83 counties.<sup>2</sup> Electric cooperatives are not-for-

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<sup>1</sup> MECA's membership consists of the following: Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-op, Thumb Electric Cooperative, Wolverine Power Marketing Cooperative, and Wolverine Power Supply Cooperative, Inc.

<sup>2</sup> The distribution cooperatives maintain over 36,000 miles of line to serve approximately 310,000 meters. This results in an average of approximately eight customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 90 customers per mile for some municipal systems. As for annual kWh sales per mile of line, the distribution cooperatives average 60,500; the IOUs 725,000; and municipals top the scale at 1,950,000 kWh per mile per year. Approximately 95% of cooperative customers are residential. Several cooperatives serve a considerable number of seasonal homes and cottages where annual usage is low, but maintenance and the annual cost to serve may be higher.

profit, member-owned and controlled utilities governed by boards of directors elected from the membership. Even though the electric cooperatives are not-for-profit utilities, we pay all the same taxes as investor-owned utilities, with the exception of Federal Income Tax, which is a tax on profit. Cooperatives pay the Single Business Tax, Personal Property Tax, Real Estate Property Tax, and Use Tax, and we collect and remit sales tax. In the current debate regarding the replacement of the Single Business Tax our focus is on the impact any replacement tax will have on the cost of electric service to our members. But, I'll save those comments for another committee and another day.

What I would like to first address today is the regulation of electric cooperatives in Michigan first and then I will address several policy issues raised by the recently released 21<sup>st</sup> Century Energy Plan.

Michigan's distribution cooperatives, unlike in most states, are fully regulated by the Michigan Public Service Commission. Nationwide, electric cooperatives operate in 47 states and serve over 39 million members. However, only 14 states exercise full regulation of electric cooperatives. In nine states, the cooperatives, acting through either their member-elected boards of directors, or the membership, can vote the cooperative out from under state regulation or vote to be regulated. In total, approximately 75% of all electric cooperatives operating today are not under state regulation for rates and service rules.

An interesting fact is that Michigan's electric cooperatives were not always regulated by the MPSC either. Up until 1965, Michigan's electric cooperatives were fully self-regulating, acting through their boards of directors to set rates, establish service rules, and

ensure the safe operation of their electric cooperatives. That all changed when two cooperatives sought the Commission's help in addressing service area disputes they were having with the neighboring utility. The cooperatives wanted the Commission to stop the incursions into their service areas, which had included the removal of cooperative meters and the construction of duplicating facilities. The basic reply from the Commission was that they could address the disputes, if the Commission regulated the cooperatives.

I have given you a copy of a letter dated December 22, 1965. In that letter, then MPSC Chairman Peter Spivak stated, "the Commission feels that extending its jurisdiction over only part of (the) electric cooperative industry would be entirely impractical and completely unsupportable on the part of the Commission." The letter continues, "Therefore, the Commission has determined that in view of situations recently occurring . . . , the public interest required that Commission jurisdiction should extend over each of the distribution and production and transmission rural electric cooperatives." A memo with the same date was then sent by the Director of Public Utilities to every cooperative informing them of the Commission's action and directing that each cooperative make an initial filing with the Commission that would then become the basis of the Commission's first regulatory orders over the electric cooperatives.

No laws were changed, no public hearings were held, the Commission simply responded to the actions of two electric cooperatives in an effort to address the service area problems they were experiencing in the manner the Commission decided made the most sense at the time. We think times have changed. And we are not alone.

In a 1995 report entitled, “Michigan Public Service Commission Staff Review of Electric Cooperative Regulation” the staff was charged with the task of reviewing the status of the ratemaking mechanisms applicable to the cooperatives. Although the staff found that for the most part the rate making process for the cooperatives was meeting its intended goals, the report also states, “The rationale for comprehensive full-scale regulation is questionable today. Instead, deregulation in whole, or in part would seem to be a timely consideration.” In making the case for “deregulation” the report laid out the following points:

- The rationale for regulating investor owned utilities is not applicable to cooperatives and there is no comparable rationale.
- Most states find it unnecessary to regulate cooperatives; and indeed the vast majority of cooperatives are unregulated.
- There is no perceptible price difference between regulated and nonregulated cooperatives nationally.
- Although the commission's regulation has served to assist the cooperatives in the past, its role in setting a maximum price today is ambiguous.
- The role which regulation plays today includes providing a buffer between customers and cooperative managers.

These points challenge the need for regulatory treatment of the cooperatives and form the case for the commission requesting the deregulation of the cooperatives. (MPSC Staff Report page 50, February 1995.)

We agree with the points raised in the MPSC Staff Report. We further believe legislation should be adopted that would allow each cooperative, acting through its member-elected board of directors, to elect to be self-regulating or continue under current MPSC regulation. We believe that issues such as service area, customer choice, public safety and system performance standards enforced by the Commission could and should stay in place, even for those cooperatives that become self-regulating for rates, service and accounting rules. In essence, cooperatives should be given back the local control they enjoyed until 1965. We look forward to working with the members of this committee, the MPSC, and the utility industry to pass legislation this session to return local control to cooperatives and their member-owners.

I would like to now address several issues raised in the recently released 21<sup>st</sup> Century Energy Plan (Plan). MECA commends Chairman Lark, George Stojic, and others from the MPSC, as well as the hundreds of interested stakeholders that worked countless hours to prepare the comprehensive analysis of the state's power supply and projected demand. The Plan lays out a clear picture of the state's generation and transmission resources and our ability to meet the demand placed on those resources through 2025.

Based on the projected growth in demand and the need to retire older generating plants, we know the state needs new base load generation to be built sometime in the next 8 to 10 years. In a few moments you are going to hear from Wolverine's President & CEO, Eric Baker regarding the need for base load power for the electric cooperatives served by Wolverine and a plan they are pursuing to meet that need. What I would like

to address is the recommendations in the Plan regarding the establishment of a mandated Renewable Portfolio Standard and the creation of a statewide energy efficiency program.

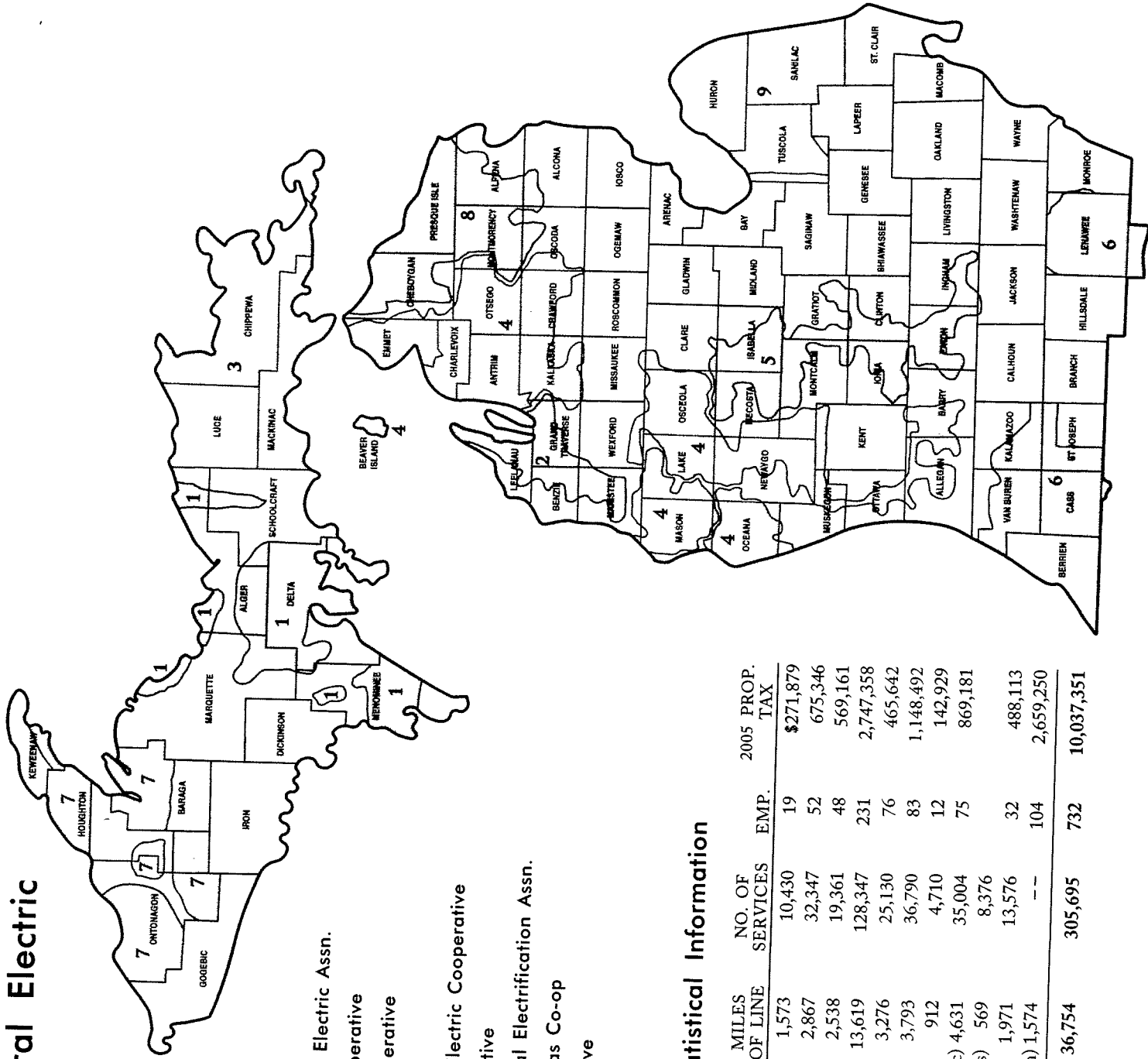
The Plan recommends that Michigan adopt a mandate requiring all load-serving entities to include at least 10% renewable energy as part of their power supply portfolio by the end of 2015. As cooperatives we have looked for ways to incorporate renewable energy into our power supply mix when such actions make economic sense. Cloverland Electric Cooperative currently has about 40% of its power supply met with renewable energy, and Alger Delta has about 11% renewable energy in its supply portfolio. In the Thumb, Thumb Electric Cooperative has been working with local developers in their efforts to site wind generation in that part of the state. We believe the legislature needs to consider incentives and the removal of barriers that are currently seen as impediments to the development of renewable energy in some parts of the state. We do appreciate that part of the Plan's recommendation includes a provision that any RPS should include "hardship waivers" when supply is not available or where the rate impacts would be significant. We have looked at what would be required to meet a 10% RPS by 2015 and the numbers are significant. Based on initial cost projections a 10% RPS could increase some cooperative electric rates by as much as 15%. We encourage the Committee to ensure that any RPS considered has the flexibility to prevent rate shock, and takes into consideration existing renewables.

The Plan recommends the passage of new legislation that creates the Michigan Energy Efficiency Program (MEEP), a statewide energy efficiency program under the authority, oversight, and guidance of the Commission, applicable to all load-serving entities and the establishment of the Michigan Energy Efficiency Fund (MEEF), a

statewide public benefits fund created within the Department of Treasury and administered by the Commission. As member-owned cooperatives we have been in the energy efficiency business from the beginning—from promoting high efficiency water heaters, geothermal heat pumps, and compact fluorescent lighting, to conducting energy audits for residential and commercial customers, and constantly educating our members on the efficient use of electricity. We are committed to doing more, but have concerns regarding the creation of a statewide fund to collect money from our members and then redistribute that money. As cooperatives we would prefer that any money collected from our members be done so locally and that the money collected stays local, to provide help and assistance to the neighbors of those who contributed the moneies. We are not opposed to an increased focus on energy efficiency, but we are opposed to more of our member's money flowing to Lansing.

I want to thank the Committee members for their time. MECA looks forward to the opportunity to work with the committee and others to address these important issues. I would like to now introduce Mr. Eric Baker, President and CEO of Wolverine Power Cooperative. At the end of Mr. Baker's comments, we will both be happy to answer any questions that you may have.

# Michigan's Rural Electric Cooperatives



- 1 - Alger Delta Cooperative Electric Assn.
- 2 - Cherryland Electric Cooperative
- 3 - Cloverland Electric Cooperative
- 4 - Great Lakes Energy
- 5 - HomeWorks Tri-County Electric Cooperative
- 6 - Midwest Energy Cooperative
- 7 - Ontonagon Country Rural Electrification Assn.
- 8 - Presque Isle Electric & Gas Co-op
- 9 - Thumb Electric Cooperative

## 2006 Statistical Information

COOPERATIVE	MILES OF LINE	NO. OF SERVICES	EMP.	2005 PROP. TAX
Alger Delta	1,573	10,430	19	\$271,879
Cherryland	2,867	32,347	52	675,346
Cloverland	2,538	19,361	48	569,161
Great Lakes	13,619	128,347	231	2,747,358
HomeWorks Tri-County	3,276	25,130	76	465,642
Midwest Energy	3,793	36,790	83	1,148,492
Ontonagon	912	4,710	12	142,929
Presque Isle	(Electric) 4,631 (Gas) 569	35,004	75	869,181
Thumb	1,971	8,376	32	488,113
Wolverine	(Transmission) 1,574	13,576	104	2,659,250
<b>TOTAL</b>	(Electric) 36,754	305,695	732	10,037,351



STATE OF MICHIGAN

# Public Service Commission



PETER B. SPIVAK, Chairman  
JOHN E. TORMEY, Commissioner  
GEORGE WASHINGTON, Commissioner

NORMAN BERKOWITZ, Secretary  
HUGH B. ANDERSON, Counsel

Telephone

373-3253

GEORGE ROMNEY, GOVERNOR ..... LANSING, MICHIGAN 48913

Exhibit ..... (MPK-4)

Case No. U-11016

March 25, 1996

December 22, 1965

Running and Wise  
Attorneys at Law  
326 State Street  
Traverse City, Michigan

Attention: Mr. Harry T. Running

Gentlemen:

This will acknowledge receipt of your letter of December 10, 1965, in which you set forth the recent action of the Board of Directors of Cherryland Rural Electric Cooperative whereby the Board by unanimous vote elected to immediately seek this Commission's jurisdiction over the Cooperative's operations.

We wish to state that we are pleased to be so advised. For your information the Oceana Electric Cooperative has similarly advised. As indicated in our recent conferences, the Commission feels that extending its jurisdiction over only a part of electric cooperative industry would be entirely impractical and completely unsupportable on the part of the Commission.

Therefore, the Commission has determined that in view of situations recently occurring, including action of your Board, the public interest required that Commission jurisdiction should extend over each of the distribution and the production and transmission rural electric cooperatives.

Accordingly, the staff in a general letter to all electric cooperatives is requesting each cooperative to make an initial filing of existing rates, rules, and regulations governing its service, any special contracts for electric service, and an annual report covering 1965 operations. A copy of such letter is attached.

Your cooperation in making such filings as well as that on the part of the other cooperatives will permit an orderly extension of our jurisdiction.

Yours very truly,

Peter B. Spivak  
Chairman

Attachment



RECEIVED MARCH 25 1966

March 25, 1996

STATE OF MICHIGAN

## Public Service Commission



PETER E. STEWAL, Chairman  
JOHN E. TORMEY, Commissioner  
GEORGE WASHINGTON, Commissioner

NORMAN BERKOWITZ, Secretary  
HUGH B. ANDERSON, Counsel

Telephone 373-3244

GEORGE ROMNEY, GOVERNOR ..... LANSING, MICHIGAN 48913 .....

December 22, 1965

As you are aware, representatives of Michigan electric cooperatives and the Michigan Public Service Commission and its staff have engaged in conferences regarding extension of the Commission's jurisdiction over the cooperatives. Subsequently, correspondence with certain cooperative representatives has taken place.

Recently, Cherryland Rural Electric Cooperative and Oceana Electric Cooperative have advised us as to their desire to seek immediate Commission jurisdiction. Further, recent events have convinced the Commission that public interest requires extension of its jurisdiction over the electric cooperatives. As discussed at our recent conferences, the Commission is in no position to extend its jurisdiction over only a part of the electric cooperative industry. Accordingly, the Commission has instructed its staff to advise all distribution and production and transmission REA electric cooperatives of its intention to extend its regulation over the cooperatives. In order to accomplish the same in an orderly manner, you are requested to make an initial filing of the following:

1. The rates, rules and regulations of your cooperative governing electric service.
2. Any special contracts of your cooperative covering electric service.
3. An annual report covering your cooperative's 1965 operations in such form and detail as required by the Rural Electrification Administration.


We are attaching a copy of this Commission's Order No. 3096, which sets forth regulations governing these filings to assist you.

Page 2  
December 22, 1965

We are also attaching a copy of this Commission's Order No. 1692, "Rules For Electrical Service," which relates to your electric service.

Your cooperation in promptly submitting the above initial filings will assist in inauguration of this needed extension of regulation.

Yours very truly,

A handwritten signature in dark ink, appearing to read "F. M. Hoppe". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

F. M. Hoppe  
Director of Public Utilities

Attachments